

**Plan for Employees' Pension of  
the Board of Water and Light -  
City of Lansing, Michigan -  
Defined Benefit Plan**

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**Financial Report  
With Required Supplemental Information**

**June 30, 2004**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan</u>		County Ingham County
Audit Date June 30, 2004	Opinion Date September 2, 2004		Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>				
Street Address 1111 Michigan Avenue		City East Lansing	State Michigan	ZIP 48823
Accountant Signature 			Date	

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

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Independent Auditor's Report

Honorable Mayor, Members of City Council,  
and Commissioners of the  
Board of Water and Light  
City of Lansing, Michigan

We have audited the accompanying statement of plan net assets of the Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the Plan), as of June 30, 2004 and 2003, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets held in trust for pension benefits of the Plan at June 30, 2004 and 2003, and the changes in net assets held in trust for pension benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Governmental Accounting Standards Board (GASB), Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments*, requires a Management Discussion and Analysis be presented along with the financial statements. This information has not been presented.

The Required Supplementary Information - Analysis of Funding Progress and Contributions, on pages 8-10 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. This supplemental information is the responsibility of the Plan's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Plante & Moran, PLLC

September 2, 2004

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# Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

## Statement of Plan Net Assets

	June 30	
	2004	2003
<b>Assets</b>		
Receivables:		
Contribution receivable (Note 3)	\$ -	\$ 1,683,784
Investment interest receivable	1,039,384	1,173,867
Total receivables	1,039,384	2,857,651
Investments at fair value:		
Money market collective trust fund	1,872,255	6,597,730
U.S. Government obligations	95,198	183,411
Corporate bonds and notes	50,220,977	54,182,688
Preferred stocks	1,455,800	1,091,200
Common stocks	71,947,717	61,192,420
Limited partnership	96,511	254,000
Total investments	125,688,458	123,501,449
<b>Net Assets</b>	<b>\$ 126,727,842</b>	<b>\$ 126,359,100</b>

# Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

## Statement of Changes in Plan Net Assets

	Year Ended June 30	
	2004	2003
<b>Increases</b>		
Investment income:		
Appreciation (depreciation) in fair value of investments:		
Bonds	\$ (3,057,785)	\$ 5,071,596
Stocks	13,146,175	(377,411)
Other	(157,489)	40,265
Total	9,930,901	4,734,450
Interest and dividend income	4,825,434	5,373,437
Total increases, net of depreciation in fair value of investments	14,756,335	10,107,887
<b>Decreases</b>		
Benefits payments	9,573,649	8,585,374
Retirees health premiums (Note 6)	4,813,944	-
Total decreases	14,387,593	8,585,374
<b>Net Increases</b>	368,742	1,522,513
<b>Net Assets</b>		
Beginning of year	126,359,100	124,836,587
End of year	<u>\$ 126,727,842</u>	<u>\$ 126,359,100</u>

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Notes to Financial Statements June 30, 2004 and 2003**

### **Note 1 - The Plan**

The Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan (the Plan), a component unit of the Board of Water and Light - City of Lansing, Michigan (the BWL), is a single-employer, noncontributory, defined benefit, public employee retirement system established and administered by the BWL under Section 5-203 of the City Charter. An employee becomes a participant of the Plan when hired. A participant's interest shall be fully vested when the participant has been credited with seven years of vesting service. The Plan was established in 1939 and has been amended several times, with the latest amendment taking effect on January 1, 2002.

The Plan, by resolution of the Board of Commissioners, was closed to employees hired subsequent to December 31, 1996, and a defined contribution plan was established for employees hired after December 31, 1996. Effective December 1, 1997, all active participants in this plan were required to make an irrevocable choice to either remain in this plan (defined benefit) or move to the newly established defined contribution plan. Those participants who elected to move to the defined contribution plan received lump-sum distributions from this plan that were rolled into their accounts in the newly established defined contribution plan. Of the 760 employees that were required to make this election, 602 elected to convert their retirement benefits to the newly established defined contribution plan. As a result of this action, effective December 1, 1997, the Board of Commissioners transferred \$75,116,470 to the newly established defined contribution plan, reflecting the plan participants' accumulated benefits as of said date.

The Plan provides for an annual benefit upon normal retirement equal to the product of the total number of years of credited service multiplied by a percentage equal to 1.80 percent of the highest annual pay during the last ten years of service, paid in equal monthly installments.

The Plan membership consists of the following as of the date of the most recent actuarial valuation for each year presented:

	<u>2004</u>	<u>2003</u>
Retirees and beneficiaries currently receiving benefits	518	528
Terminated employees with vested benefits	23	25
Current employees	<u>81</u>	<u>91</u>
Total participants	<u>622</u>	<u>644</u>

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

**Notes to Financial Statements  
June 30, 2004 and 2003**

## **Note 2 - Summary of Significant Accounting Policies**

**Basis of Accounting** - The Plan's financial statements are prepared using the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plan and Note Disclosures for Defined Contribution Plans*.

**Investment Valuation and Income Recognition** - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value.

Purchases and sales of securities are recorded on a trade-date basis.

Appreciation or depreciation of investments is calculated based on the beginning of the year fair value of investments.

The Plan is authorized by Michigan Public Act 55 of 1982 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

**Expenses** - Substantially all costs and expenses incurred in connection with the operation and administration of the Plan are paid by the BWL, the Plan sponsor. The Plan does pay all expenses incurred in connection with the custodial safekeeping account.

**Use of Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Regulatory Status** - The Plan is not subject to the reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as it has been established for the benefit of a governmental unit.

**Funding Policy** - The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. During the fiscal years ended June 30, 2004 and 2003, the actuarial required contribution was \$0 for both years.



# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Notes to Financial Statements June 30, 2004 and 2003**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Vesting** - Participants vest at the rate of 20 percent per year after the completion of three years of service. Participants become fully vested at the completion of seven years of service.

### **Note 3 - Contribution Receivable**

Contribution receivable represented pension costs that were not funded by the BWL from 1968 to 1972. The BWL was paying this amount in annual installments of \$242,500, including interest at 5.5 percent per annum, with the final payment due June 30, 2012. During fiscal 2004, The BWL paid the remaining balance of the contribution receivable. For purposes of actuarial valuation, this amount is considered funded.

### **Note 4 - Investments**

At June 30, 2004 and 2003, certain investments of the Plan are uninsured and unregistered investments for which the securities are held by the custodian or by its trust department or agent but not in the Plan's name.

The collective trust fund is not subject to categorization of investment risk because it is not evidenced by securities that exist in physical or book entry form. This investment is registered with the SEC.

### **Note 5 - Realized Gains and (Losses) on Investments**

Realized gains and (losses) on investment sales for the years ended June 30 were as follows:

	2004	2003
Bonds	\$ 59,928	\$ (209,395)
Stocks	(1,481,299)	(2,702,151)
Other	-	(10,397)
Total	<u>\$ (1,421,371)</u>	<u>\$ (2,921,943)</u>

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Notes to Financial Statements June 30, 2004 and 2003**

### **Note 5 - Realized Gains and (Losses) on Investments (Continued)**

Realized gains and (losses) on investments are calculated based on the historical cost of the asset. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of Plan investments. Unrealized gains and (losses) on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in the prior year.

### **Note 6 - 401(h) Account**

Effective July 1, 1999, the Plan was amended to include a medical-benefit component, in addition to the normal retirement benefits, to fund a portion of the postretirement obligations for certain retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component 401(h) account. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries.

Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the Plan sponsor. At June 30, 2004 and 2003, the amount of excess pension plan assets available for transfer totaled \$22,111,366 and \$0, respectively; however, such transfers are limited to the total amount of retiree health care costs incurred during the year. During the years ended June 30, 2004 and 2003, the Plan transferred \$4,813,944 and \$0, respectively to the 401(h) account of which all such funds were utilized for retiree health care costs incurred during the Plan year. Accordingly, at June 30, 2004 and 2003, there were no funds remaining in the 401(h) account.

### **Note 7 - Tax Status**

The Plan obtained its determination letter dated March 14, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan.

Therefore, no provision for income taxes has been included in the Plan's financial statements.

## **Required Supplemental Information**

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# Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan

## Schedule of Funding Progress (in thousands)

Valuation Date	Actuarial Asset Value	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
02/28/95	\$ 155,576	\$ 139,486	\$ (16,090)	112	\$ 33,541	(48.0)
02/29/96	166,758	146,858	(19,900)	114	34,123	(58.3)
02/28/97	178,927	157,472	(21,455)	114	34,730	(61.8)
02/28/98	118,511	94,710	(23,801)	125	7,224	(329.5)
02/28/99	128,552	93,781	(34,771)	137	6,561	(530.0)
02/29/00	136,723	90,267	(46,456)	151	5,861	(792.6)
02/28/01	142,569	94,519	(48,050)	151	5,868	(818.8)
02/28/02	143,158	91,726	(51,432)	156	5,253	(979.1)
02/28/03	137,123	91,015	(46,108)	151	4,922	(936.8)
02/29/04	136,749	89,612	(47,137)	153	4,476	(1,053.1)

AAL - Actuarial Accrued Liability (Projected Unit Credit Accrued Liability).

UAAL - Unfunded Actuarial Accrued Liability and negative UAAL indicates a funding excess.

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Schedule of Employer Contributions (in thousands)**

Fiscal Year Ended	Employer Contributions		Percentage of ARC Contributed
	Required	Actual	
06/30/95	\$ 3,496	\$ 3,496	100
06/30/96	3,347	3,347	100
06/30/97	2,464	2,464	100
06/30/98	1,189	1,189	100
06/30/99	-	-	N/A
06/30/00	-	-	N/A
06/30/01	-	-	N/A
06/30/02	-	-	N/A
06/30/03	-	-	N/A
06/30/04	-	-	N/A

ARC - Annual required contribution.

# **Plan for Employees' Pension of the Board of Water and Light - City of Lansing, Michigan - Defined Benefit Plan**

## **Note to Required Supplementary Information Year Ended June 30, 2004**

### **Note - Required Supplementary Information**

Required supplementary information on pages 8 and 9 is designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due. This information was used to compile the latest actuarial valuation.

Valuation date	February 29, 2004
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar over a 15-year open period
Asset valuation method	Smoothed Market Value (five-year smoothing technique)
Actuarial assumptions:	
Investment rate of return	7.5% per year compounded annually
Projected salary increases	5.0% - 11.0% per year, depending on age
Postretirement -	
Cost-of-living adjustments	Ad-hoc; none explicitly assumed in liability computations